MODULE 3 – Repayment Options

SLIDE 1 – Title Slide

Welcome to the Maryland Student Loan Ombudsman's Educational Curriculum - Module 3: Repayment Options for Student Education Loans.

This presentation was prepared by the Maryland Student Loan Ombudsman in the Office of the Commissioner of Financial Regulation at the Maryland Department of Labor.

For more information about the Ombudsman and the Office of the Commissioner of Financial Regulation, please visit our website at www.labor.maryland.gov/finance.

SLIDE 2 – Repayment Options for Student Education Loans

Borrowers with federal student loans have a number of repayment plan options offered by the U.S. Department of Education. This module briefly summarizes each type of federal repayment plan currently offered.

Private loan servicers are not required to offer the same repayment plans as the U.S. Department of Education. Borrowers with private student loans should contact their loan servicer to ask the available repayment options.

You can check the type of student loans that you have by going to the National Student Loan Data System student access portal, online at nsldsfap.ed.gov.

Always contact your student loan servicer directly for the most up-to-date information about available repayment plans, and to learn which plans you qualify for.

When deciding on a repayment plan, consider all the variables - like, the estimated monthly payment amounts, the total amount of interest you will pay, the number of years it will take to pay off the loan, and whether or not the repayment plan is a qualifying plan for any of the federal loan forgiveness programs, such as Public Service Loan Forgiveness (or PSLF). More information about the various loan forgiveness programs is discussed in Module 4.

SLIDE 3 – Repayment Options for Federal Student Loans

Repayment plans for federal student loans are generally divided into two categories: Traditional and Income-Driven.

Traditional plans have monthly payments that are set on a pre-determined schedule, and are not dependent on your income. The three traditional plans are "Standard Repayment", "Graduated Repayment", and "Extended Repayment".

Income-driven plans ARE tied to your income - so as your annual income changes, your monthly payment amounts are adjusted accordingly. There are five income-driven plans - they are "Pay As You Earn", "Revised Pay As You Earn", "Income-Based", "Income-Contingent", and "Income-Sensitive". Most of the income-driven plans are qualifying plans for Public Service Loan Forgiveness.

Next I will briefly summarize each federal repayment plan.

SLIDE 4 – Traditional Repayment Plans for Federal Loans

The *Standard Repayment Plan* is a traditional plan designed to minimize interest rate costs for you, the borrower. The Standard Plan has fixed payments - meaning that you pay the same amount every month. Under this plan, the loan should be paid off in 10 years, or up to 30 years if you have Consolidation Loans.

You will pay less over time with the Standard Repayment Plan as compared to other repayment plans discussed in this module. This is because your interest costs are reduced, but you will have higher monthly payments.

The Standard Plan can be used with Direct Loans, Federal Stafford Loans, all PLUS loans, and all Consolidation Loans. This is not a qualifying plan if you are seeking Public Service Loan Forgiveness.

SLIDE 5 – Traditional Repayment Plans (continued)

The *Graduated Repayment Plan* is a traditional plan designed to ensure your loans are paid off with lower monthly payments than you would have with the Standard Plan, but you'll end up paying more in total interest.

The Graduated Plan starts with low monthly payments, then the payment amounts will gradually increase, usually every two years. The loans are paid off within 10 years, or if you have Consolidation Loans, they are paid off between 10 to 30 years.

The Graduated Plan can be used with Direct Loans, Federal Stafford Loans, all PLUS loans, and all Consolidation Loans. This plan this is generally not a qualifying plan if you are seeking Public Service Loan Forgiveness.

SLIDE 6 – Traditional Repayment Plans (continued)

The *Extended Repayment Plan* is another traditional plan that lengthens the amount of time you have to repay - with this plan the loans should be paid off within 25 years. The monthly payments could be fixed, like in the Standard Plan, or the payments will increase over time, like in the Graduated Plan.

Because you have additional years to repay the loan, the monthly payments will be lower than with a 10-year Standard Plan or a Graduated Plan, BUT you will end up paying MORE over time because of accrued interest.

The Extended Repayment Plan can be used with Direct Loans, Federal Stafford Loans, all PLUS loans, and all Consolidation Loans. This is not a qualifying plan if you are seeking Public Service Loan Forgiveness.

SLIDE 7 – Income-Driven Repayment Plans for Federal Loans

The next five federal student loan repayment plans are income-driven plans, meaning the amount you pay each month is tied to your income.

With the *Pay As You Earn Repayment Plan*, the monthly payment amounts are 10% of your discretionary income - and your payments will never be higher than what you would have paid with a 10-year Standard Plan.

Even though your monthly payments are lower with the Pay As You Earn plan, you will usually end up paying more in total than you would have with a 10-year Standard Plan.

This is true for all the income-driven plans - because you are repaying the loan over a longer period of time, you end up paying more in interest.

The monthly payment amounts are recalculated every year based on your income and family size. Any loan balance remaining after 20 years of repayment will be forgiven, but you may owe income tax on the forgiven amount.

To qualify for this plan, you must have a high amount of debt as compared to your income. Your "debt-to-income" ratio is calculated by your student loan servicer.

Pay As You Earn is a qualifying plan for those seeking Public Service Loan Forgiveness, and it can be used with Direct Loans, Direct PLUS loans made to students, and Direct Consolidation Loans that do not include any PLUS loans made to parents.

SLIDE 8 – Income-Driven Repayment Plans (continued)

With the *Revised Pay As You Earn Repayment Plan*, the monthly payment amounts are 10% of your discretionary income and are recalculated every year based on your income and family size, just like with the regular Pay As You Earn plan. The Revised Pay As You Earn plan, however, does not have the same eligibility requirement of a high debt-to-income ratio.

If all of your student loans were used for undergraduate study, then any balance remaining after 20 years of repayment will be forgiven with the Revised Pay As You Earn plan. If any of your loans were used for graduate or advanced study, then the remaining balance will be forgiven after 25 years of repayment.

With the Revised Pay As You Earn Plan, you will usually pay more over time than with a 10-year Standard Plan, and you may owe income tax on any loan amount that is forgiven.

The Revised Pay As You Earn plan is a qualifying plan for those seeking Public Service Loan Forgiveness, and it can be used with Direct Loans, Direct PLUS loans made to students, and Direct Consolidation Loans that do not include PLUS loans made to parents.

SLIDE 9 – Income-Driven Repayment Plans (continued)

With the *Income-Based Repayment Plan*, the monthly payment amounts are either 10% or 15% of your discretionary income - the percentage depends on when you received your first loans.

The monthly payment amounts are recalculated every year based on your income and family size, and your payments will never be more than what you would have paid with a 10-year Standard Plan.

Even though the monthly payments are lower than with a 10-year Standard Plan, you will usually end up paying more in total, because you will be paying interest over a longer period of time.

Any loan balance remaining will be forgiven after 20 or 25 years of repayment, depending on when you received your first loans. You may owe income tax on the forgiven amount.

To qualify for the Income-Based Repayment Plan, you must have high debt as compared to your income, similar to the Pay As You Earn Plan.

This is a qualifying plan for those seeking Public Service Loan Forgiveness, and it can be used with Direct Loans, Federal Stafford Loans, all PLUS loans made to students, and Consolidation Loans that do not include PLUS loans made to parents.

SLIDE 10 – Income-Driven Repayment Plans (continued)

With the *Income-Contingent Repayment Plan*, your monthly payment amount will be the lesser of either 20% of your discretionary income OR you will have a fixed payment over 12 years, also adjusted to your income.

The monthly payments are recalculated every year based on your income, family size, and the total amount of your loans.

With the Income-Contingent Plan, you will usually pay more over time than with a 10-year Standard Plan. Any balance remaining after 25 years of repayment will be forgiven, but you may owe income tax on the forgiven amount.

This is a qualifying plan for those seeking Public Service Loan Forgiveness, and it can be used with Direct Loans, Direct PLUS Loans made to students, and Direct Consolidation Loans.

SLIDE 11 – Income-Driven Repayment Plans (continued)

The final repayment plan is the *Income-Sensitive Repayment Plan*. This plan can only be used with Federal Stafford Loans, Federal Family Education PLUS Loans, and Federal Family Education Consolidation Loans.

With the Income-Sensitive Plan your monthly payment is based on your annual income, but the formula for determining your payment amount can vary.

You will pay more over time with the Income-Sensitive Plan than you would with a 10-year Standard Plan, but your loans will be repaid in full within 15 years.

The Income-Sensitive Plan is not available for those seeking Public Service Loan Forgiveness, because the loans that this plan can be used with are not eligible for that type of loan forgiveness.

SLIDE 12 – Module 3 Resources

This concludes the Maryland Student Loan Ombudsman's Educational Curriculum for Module 3: Repayment Options for Student Education Loans.

Please make note of these resources, and contact your student loan servicer directly for more information about the repayment plan options available to you.

- National Student Loan Data System (NSLDS) – Student Access
  nsldsfap.ed.gov/nslds_SA
- Federal Student Aid/U.S. Department of Education
  studentaid.gov/h/manage-loans
  studentaid.ed.gov/sa/sites/default/files/repaying-your-loans.pdf
  studentaid.gov/manage-loans/repayment/plans

See also the PDF version of the Maryland Student Loan Ombudsman's full Educational Curriculum - which is available on the website of the Office of the Commissioner of Financial Regulation at www.labor.maryland.gov/finance.